INVESTOR AWARENESS BULLETIN

WHAT EVERY INVESTOR NEEDS TO KNOW

RISK AND SUITABILITY

Securities Division
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INVESTMENT RISK TOLERANCE AND SUITABILITY

Choosing an investment vehicle is complicated. Should you invest in stocks, bonds, mutual funds, CDs, commodities, options, futures contracts, mortgage-backed securities, or a myriad of other types of securities? And once you have chosen a type of investment, such as mutual funds, then you need to decide in which areas of the economy--such as technology or health care--you want to invest. Before you make any investment choices, however, you and your financial professional need to consider two factors that should influence all of your choices: your risk tolerance and what investments suit you.

Risk can be simply defined as the possibility of suffering a loss. One very important principle to always remember about risk is that the higher the return on your investment, the greater the risk you are taking. If the risk of loss is high, a higher interest rate is used to entice investment. This is why U.S. Treasury securities, often referred to as T-bills, T-notes, and T-bonds, have a lower rate of return as opposed to bonds issued by financially shaky companies that offer a higher rate of return.

You can minimize your investment risk through diversification, which may enable you to invest in a mixture of low-risk/high-risk investments. The old saying "Don't put all your eggs in one basket" holds true with investing. Many people who invested solely in the "dot.com" emerging companies of the 1990s learned a hard lesson about securities diversification. Likewise, those who invest in only a few companies or even a few areas of the economy are assuming significant risk and should consider diversifying.

Now that you have thought about risk, what about suitability? Suitability means that the investment is in line with your investment objectives and financial situation. Your financial professional (securities salesman, stockbroker, or investment adviser) should not recommend an investment that exposes you to risk beyond what you can afford to lose. So, is buying a bond in a financially shaky company suitable for you? If you cannot afford to risk the money you invest, then absolutely not. If you are capable of and willing to accept the risk of losing all or part of your investment, then buying a bond in a financial shaky company may be suitable for you.

To determine if an investment is suitable, you must also consider how soon you need to have the money back out of the investment. Even if you can afford to lose your investment, putting your money into a real estate limited partnership when you want the money to send your child to college next year would not be suitable.

If you work with a financial professional, he or she is required to have enough information about you to determine before even recommending a security to you whether that security matches your investment objectives and financial situation. The only way for financial professionals to determine if investment are suitable for you is for them to ask you questions to find out how risk tolerant you are, what your investment objectives are, and the status of your financial situation.

When you open your securities account, your financial professional should ask you questions about your income, net worth, liquid assets, tax bracket, prior investment experience, retirement goals, plans for major expenditures, and other similar relevant facts. Your financial professional should also discuss with you what your investment objectives are—for example, income, aggressive income, capital appreciation, or speculation. Your financial information and objectives typically are recorded on forms required to open a securities account. In many instances, the stockbroker or investment adviser completes these forms and has you sign them.

You must make sure that the information your financial professional has about you is accurate. Request a copy of any forms prepared by your financial professional to review for accuracy. Your financial professional should periodically review this information with you to keep it up to date. This way you and your financial professional can make sure he or she only recommends investments to you that are suitable for your specific situation.

If you have questions about your financial professionals or any of the types of investments they recommend, contact the Arizona Corporation Commission's Securities Division at 602-542-4242 or 1-877-811-3878 or visit the Securities Division's web site at www.ccsd.cc.state.az.us. The Securities Division has numerous free brochures about risk, suitability, various types of investments, and about working with financial professionals that may assist you with your investment decisions.

IMPORTANT TELEPHONE NUMBERS

Arizona Corporation Commission's	
Securities Division	602-542-4242
(Toll free intrastate)	877-811-3878
Arizona Attorney General's Office	
Complaint & Information Center	602-542-5763
(Toll free intrastate)	800-352-8431
Better Business Bureau	
Phoenix, Flagstaff, Yuma	602-264-1721
Tucson and Southern Arizona	520-888-5353

For additional information on how to investigate any offering before you invest, see How Do I Investigate, available on the Securities Division's web site at www.ccsd.cc.state.az.us.